

## MEMORANDUM



**DATE:** April 16, 2008 – *as revised*  
**TO:** House Appropriations Subcommittee on Transportation  
**FROM:** William E. Hamilton  
**RE:** Interdepartmental Grants from State-Restricted Transportation Funds

*This memo is a corrected version of the memo presented to the House Appropriations Subcommittee on Transportation on March 13, 2008.*

**Overview** – Interdepartmental Grants (IDGs) are a budgetary tool that allows one state department to reimburse another state department for services performed. IDGs are typically used only for restricted fund programs where one state department has statutory authority over a restricted fund but part of the program is carried out by another state department. Several state departments perform services for the Michigan Department of Transportation, for state-restricted transportation funds, and/or to support state transportation program objectives. These services include revenue collection, accounting, auditing, human resource management, legal counsel, and enforcement of truck size and weight restrictions.

The FY 2007-08 enacted budget appropriates \$47.2 million from state restricted transportation funds to other state departments through IDGs. There are currently nine state departments that receive spending authority through IDG appropriations from state restricted funds in the transportation budget. Because several departments receive funding from more than one restricted transportation fund, there are actually 23 separate IDG line item authorizations in the transportation budget.<sup>1</sup>

The Executive proposal for the FY 2008-09 transportation budget would appropriate \$49.0 million from state restricted transportation funds for IDGs to other state departments, a \$1.8 million increase from the current year. This increase is primarily due to a \$2.3 million increase in State Trunkline Fund (STF) appropriations for the Civil Service Commission to reflect the transfer of human resource functions. The increase in IDG appropriations to Civil Service is offset by a corresponding reduction in human resource appropriations in the Business support appropriations unit of the proposed transportation budget. Were it not for this shift in functions between the two departments, IDG appropriations from transportation funds for FY 2008-09 would be less than the current fiscal year.

The amount appropriated for IDGs represents spending authority, i.e. the maximum amount authorized in the budget. The amount actually charged to transportation funds by other departments may be less than the appropriated amount. Both Public Act 51 of 1951 and appropriations boilerplate require that reimbursement of other state departments from transportation funds be based on actual cost as supported by cost allocation plans. These costs are audited biennially by the Legislative Auditor General.

**IDGs from the Michigan Transportation Fund** – Two of the largest IDGs from transportation funds in the current year budget are the Michigan Transportation Fund (MTF) grant to the Michigan Secretary of State (\$20.0 million), and the MTF grant to the Michigan Department of Treasury (\$7.9 million). These grants are used to reimburse, in part, the costs of collecting MTF revenue from vehicle registration taxes and motor fuel taxes.

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<sup>1</sup> There are separate IDG appropriations from the Michigan Transportation Fund (MTF), the State Trunkline Fund (STF), the State Aeronautics Fund (SAF), and the Comprehensive Transportation Fund (CTF).

The MTF is the main collection and distribution fund for almost \$2.0 billion in state transportation revenue - primarily from motor fuel taxes and vehicle registration taxes. Funds collected by the MTF are distributed by Act 51 formula to other state funds, accounts, and programs, and to county road commissions, cities and villages.

Article IX, Section 9 of the Michigan Constitution dedicates motor fuel taxes and vehicle registration taxes for transportation purposes – "*after payment of necessary collection expenses.*" This language provides authority for the reimbursement from transportation funds for the Department of Treasury's costs of motor fuel tax collection, and for the Department of State's costs related to the collection of vehicle registration taxes.

Over the last ten years the Department of State's costs of collecting vehicle registration taxes ranged from \$79.5 million (FY 1995-96) to \$97.6 million (FY 2000-01). The costs were \$96.0 million in FY 2005-06, the most recent year for which cost data is available.<sup>2</sup> The department's costs had historically been funded through an IDG from the MTF. However, for four fiscal years, FY 1997-98 through FY 2000-01, the state General Fund absorbed an average of \$46.2 million each year in vehicle registration costs. In FYs 2001-02 and 2002-03 the Department of State vehicle registration costs were again primarily funded through an IDG from the MTF. Starting in FY 2003-04 Department of State vehicle registration collection costs were funded in part from a \$20.0 million MTF IDG, in part from the state-restricted Transportation Administration Collection Fund (TACF), and in part from the State General Fund. For additional information on this funding history, see our memo "*Transportation Administration Collection Fund*," dated April 9, 2007 on the House Fiscal Agency website <http://www.house.mi.gov/hfa/PDFs/TACF%20history.pdf>

***Legislative Auditor General Performance Audit*** – In accordance with a boilerplate requirement in transportation appropriation acts, the Legislative Auditor General conducts a performance audit of charges to transportation funds by state departments. The boilerplate section requires a detailed audit report "*with recommendations and conclusions, including a list of services charged to transportation funds, the appropriateness of those charges, the cost allocation methodologies used in determining the level of funding, and any unreimbursed costs.*" The most recent audit report (OAG Report 591-0105-06), issued December 2006, was of two fiscal years: the fiscal years ending September 30, 2004 and September 30, 2005.

The audit report listed three audit objectives: to determine the appropriateness of selected State agencies' charges to transportation funds, to determine compliance with selected State agencies contractual and reporting requirements for transportation-related funding, and to report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs.

The report disclosed reportable conditions with regard to the cost allocation methodologies of two state departments: the Department of Treasury and the Michigan State Police. The Department of Treasury allocated costs of administering and enforcing the Motor Fuel Tax Act based on the ratio of motor fuel tax collections to total tax collections. The audit report concluded that this was not an equitable basis for allocating costs. The audit report also indicated that the cost allocation method used by the Michigan State Police for the costs of the Criminal Justice Information Center, human resources, and information technology services was out of date and did not properly reflect current costs or level of services provided. The audit recommended that the two departments "*implement cost allocation methodologies that accurately identify and equitably allocate costs for transportation-related activities that are charged to transportation funds.*"

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<sup>2</sup> Source: MAXIMUS cost allocation study.

The audit report also identified unreimbursed transportation-related costs of six state agencies.

**Exhibits:**

- A. Appropriations boilerplate concerning Interdepartmental Grants from transportation funds
- B. Public Act 51 of 1951 language concerning Interdepartmental Grants from transportation funds
- C. Listing of current-year IDG appropriations
- D. Table showing a history of IDG appropriations
- E and F. Tables showing actual costs, audit exceptions, and unreimbursed costs for FYs 2003-04 and 2004-05 as reported in audit report OAG 591-0105-06.

**Exhibit A*****Appropriations Boilerplate Concerning Interdepartmental Grants from Transportation Funds  
From the FY 2007-08 Transportation Appropriations Act, 2007 PA 129 (SB 240)***

**Sec. 306.** (1) The amounts appropriated in section 103 to support tax and fee collection, law enforcement, and other program services provided to the department and to transportation funds by other state departments shall be expended from transportation funds pursuant to annual contracts between the department and those other state departments. The contracts shall be executed prior to the expenditure or obligation of those funds. The contracts shall provide, but are not limited to, the following data applicable to each state department.

- (a) Estimated costs to be recovered from transportation funds.
- (b) Description of services provided to the department and/or transportation funds and financed with transportation funds.
- (c) Detailed cost allocation methods appropriate to the type of services being provided and the activities financed with transportation funds.

(2) Not later than 2 months after publication of the state of Michigan comprehensive annual financial report, each state department receiving funding pursuant to an interdepartment contract with the department shall submit a written report to the department, the state budget director, and the house and senate fiscal agencies stating by spending authorization account the amount of estimated funds contracted with the department, the amount of funds expended, the amount of funds returned to the transportation funds, and any unreimbursed transportation-related costs incurred but not billed to transportation funds. A copy of the report shall be submitted to the auditor general, and the report shall be subject to audit by the auditor general as provided in subsection (4).

(3) In addition to the requirements of subsection (2), the state treasurer shall develop a cost allocation plan to identify the actual costs of work based on time and effort performed by the Michigan department of treasury for state-restricted transportation funds. The cost allocation plan shall specifically identify the costs of collecting constitutionally restricted motor fuel taxes. The cost allocation plan shall be submitted to the senate and house of representatives standing committees on appropriations subcommittees on general government, the senate and house fiscal agencies, the auditor general, and the state budget director by November 1. The cost allocation plan shall be subject to audit by the auditor general.

***[Note that Subsection (3) was vetoed by the Governor. The Governor indicated that she "continue(s) to believe this level of administrative oversight by the Legislature is unwarranted."]***

(4) Biennially, in each even-numbered fiscal year, the auditor general shall conduct an audit of charges to transportation funds by state departments for the 2 preceding fiscal years. The audit shall include both charges governed by interdepartmental contracts as well as miscellaneous charges from other state departments not governed by contracts. The auditor general shall prepare a detailed report, with recommendations and conclusions, including a summary of charges and related services to transportation funds by department, the appropriateness of those charges, the cost allocation methodologies used in determining the level of funding, and any unreimbursed transportation-related costs, if any. The report shall be provided to the senate and house of representatives committees on appropriations, the senate and house fiscal agencies, and the state budget director 9 months after publication of the state of Michigan comprehensive annual financial report.

**Exhibit B*****Public Act 51 of 1951 Concerning Interdepartmental Grants from Transportation Funds***

**247.660 Michigan transportation fund; establishment; use of money appropriated; programs; allocation to transportation economic development fund; transfer of funds to state trunk line fund; creation of local bridge fund and regional bridge councils.**

Sec. 10 (Excerpt).

(1) A fund to be known as the Michigan transportation fund is established and shall be set up and maintained in the state treasury as a separate fund. Money received and collected under the motor fuel tax act, 2000 PA 403, MCL 207.1001 to 207.1170, except a license fee provided in that act, and a tax, fee, license, and other money received and collected under sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, except a truck safety fund fee provided in section 801(1)(k) of the Michigan vehicle code, 1949 PA 300, MCL 257.801, and money received under the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43, shall be deposited in the state treasury to the credit of the Michigan transportation fund. In addition, income or profit derived from the investment of money in the Michigan transportation fund shall be deposited in the Michigan transportation fund. ***Except as provided in this act, no other money, whether appropriated from the general fund of this state or any other source, shall be deposited in the Michigan transportation fund. Except as otherwise provided in this section, the legislature shall appropriate funds for the necessary expenses incurred in the administration and enforcement of the motor fuel tax act, 2000 PA 403, MCL 207.1001 to 207.1170, the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43, and sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810. Funds appropriated for necessary expenses shall be based upon established cost allocation methodology that reflects actual costs.*** Appropriations for the necessary expenses incurred by the department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall be made from the Michigan transportation fund and from funds in the transportation administration collection fund created in section 810b of the Michigan vehicle code, 1949 PA 300, MCL 257.810b. Appropriations from the Michigan transportation fund for the necessary expenses incurred by department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall not exceed \$20,000,000.00 per state fiscal year except for the fiscal year ending September 30, 2006. For the fiscal year ending September 30, 2006, the legislature may appropriate funds in excess of \$20,000,000.00 from the Michigan transportation fund for all incremental additional expenses incurred by the department of state in enforcing sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, that arise because of the replacement of standard design registration license plates as provided in section 224 of the Michigan vehicle code, 1949 PA 300, MCL 257.224.

[Emphasis added]

**Exhibit C**

The following is a description of the appropriation line items in Section 103, Interdepartmental and Statutory Contracts, from the FY 2007-08 transportation appropriations act, 2007 PA 129, (Senate Bill 240).

### SECTION 103: INTERDEPARTMENTAL AND STATUTORY CONTRACTS

*This appropriation unit provides reimbursement to other state departments for services provided to state transportation funds and programs under terms of contracts with MDOT. Services provided by other state departments include collection of state-restricted transportation revenue. Article IX, Section 9 of the 1963 Michigan Constitution dedicates motor fuel excise taxes and motor vehicle registration taxes for transportation purposes, after payment of necessary collection expenses. MTF grants to other state departments are governed by provisions of Act 51. Contract and audit requirements are governed by Section 306 of the appropriations act.*

*In addition to the line item appropriations shown below, Section 708 of 2007 PA 127 (General Government appropriations) authorizes the Department of Management and Budget to assess transportation funds a proportionate share of MAIN accounting system costs.*

#### Line Items

MTF grant to department of environmental quality	\$1,057,000	Supports Department of Environmental Quality, Land and Water Management Division environmental clearance activities for state and local road and bridge construction projects.
MTF grant to department of state for collection of revenue and fees	20,000,000	Costs attributable to collection of transportation revenue from vehicle title and registration taxes processed by the Department of State. Grant limited to \$20.0 million by Act 51, as amended by 2003 PA 151.
MTF grant to department of treasury <b>PARTIAL VETO</b>	<del>8,004,600</del> 7,904,600	Costs attributable to collection of motor fuel taxes. Line reflects the Governor's veto of boilerplate section 306(3) which had required a cost allocation study estimated to cost \$100,000.
MTF grant to legislative auditor general	204,300	Audit costs attributable to transportation programs and funds.
STF grant to department of attorney general	2,807,200	Legal services and litigation costs of the Attorney General in support of transportation programs.
STF grant to department of civil service	2,700,000	Civil service administrative expenses for MDOT, based on constitutionally-mandated charge of 1% of related payroll.
STF grant to department of history, arts, and libraries	133,100	Costs of record retention at state records center.
STF grant to department of management and budget	1,502,200	Accounting, budget, payroll, purchasing, and mail services from Department of Management and Budget (DMB) attributable to the STF.
STF grant to department of state police	9,564,800	Supports Michigan State Police, Motor Carrier Enforcement, and transportation portion of Criminal Justice Information Center.
STF grant to department of treasury	199,500	Investment activity costs attributable to STF funds managed by the Department of Treasury.

STF grant to legislative auditor general	474,600	Audit costs attributable to transportation programs and funds.
SAF grant to department of attorney general	156,900	Legal services and litigation costs of the Attorney General in support of transportation programs.
SAF grant to department of civil service	55,000	Civil service administrative expenses for MDOT, based on constitutionally-mandated charge of 1% of related payroll.
SAF grant to department of history, arts, and libraries	2,300	Costs of record retention at state records center.
SAF grant to department of management and budget	38,700	Accounting, budget, payroll, purchasing, and mail services from DMB attributable to the SAF.
SAF grant to department of treasury	73,600	Investment activity costs attributable to SAF funds managed by the Department of Treasury.
SAF grant to legislative auditor general	19,600	Audit costs attributable to transportation programs and funds.
CTF grant to department of attorney general	159,000	Legal services and litigation costs of the Attorney General in support of transportation programs.
CTF grant to department of civil service	95,000	Civil service administrative expenses for MDOT, based on constitutionally-mandated charge of 1% of related payroll.
CTF grant to department of history, arts, and libraries	3,800	Costs of record retention at state records center.
CTF grant to department of management and budget	62,100	Accounting, budget, payroll, purchasing, and mail services from DMB attributable to the CTF.
CTF grant to department of treasury	1,300	Investment activity costs attributable to CTF funds managed by the Department of Treasury.
CTF grant to legislative auditor general	25,200	Audit costs attributable to transportation programs and funds.
<b>GROSS APPROPRIATION</b>	<del>\$47,339,800</del> <b>\$47,239,800</b>	<b>Total of all applicable line item appropriations.</b>
<b>Fund Sources</b>		
Comprehensive transportation fund (CTF)	346,400	State restricted fund dedicated for public transportation purposes.
Michigan transportation fund (MTF)	<del>29,265,900</del> 29,165,900	Primary collection/distribution fund for state transportation revenue from motor fuel taxes and vehicle registration taxes.
State aeronautics fund (SAF)	346,100	State restricted fund dedicated for aviation development, regulation, and promotion.
State trunkline fund (STF)	17,381,400	State restricted fund dedicated for state trunkline programs.
<b>GENERAL FUND/ GENERAL PURPOSE</b>	<b>\$0</b>	<b>The state's primary operating fund; the portion of the state's General Fund that does not include restricted revenue.</b>

Exhibit D

Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Appropriation History

APPROPRIATIONS	FY1996-97	FY1997-98	FY 1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY 2005-06	Enacted FY 2006-07	Enacted FY 2007-08	Executive FY 2008-09
Department of Civil Service	4,193,700	4,556,900	2,369,000	1,465,000	1,420,000	1,620,000	2,140,000	2,140,000	2,140,000	2,140,000	2,850,000	2,850,000	5,195,000
Department of Environmental Quality	750,000	756,600	780,000	813,000	855,500	925,300	884,800	884,800	958,200	986,600	1,020,800	1,057,000	1,247,900
Department of Management and Budget	2,206,400	2,076,400	998,200	824,900	966,300	1,144,500	1,211,700	1,539,200	1,335,700	1,315,800	1,467,500	1,603,000	1,528,900
Department of State <sup>1,2</sup>	86,255,600	43,861,700	47,104,600	56,830,800	54,904,200	95,814,100	94,500,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Department of State Police	6,417,700	6,473,800	6,701,100	6,305,700	9,935,700	8,210,700	8,253,300	6,853,300	7,226,700	7,667,300	7,967,000	9,564,800	9,593,400
Department of Treasury	6,370,000	6,791,900	6,984,900	94,700	101,000	8,098,500	10,323,500	6,797,000	7,935,700	8,501,300	8,991,100	8,179,000	7,505,000
Legislative Auditor General	631,100	567,700	555,300	537,200	573,200	501,800	607,500	616,200	723,700	723,700	723,700	723,700	723,700
Department of Attorney General	2,482,300	2,421,600	2,472,800	2,590,100	2,710,200	2,777,300	2,823,100	2,823,100	2,936,400	3,151,300	3,013,100	3,123,100	3,138,600
Department of Natural Resources	25,700	35,500	36,300	37,500									
Department of History, Arts, & Libraries								137,500	139,000	149,700	79,000	139,200	117,300
GROSS APPROPRIATION	\$109,332,500	\$67,542,100	\$68,002,200	\$69,498,900	\$71,466,100	\$119,092,200	\$120,743,900	\$41,791,100	\$43,395,400	\$44,635,700	\$46,112,200	\$47,239,800	\$49,049,800
FUND SOURCES													
Comprehensive transportation fund	339,200	304,600	300,100	181,400	192,700	354,300	324,900	345,900	323,900	334,100	341,800	346,400	336,800
Michigan transportation fund	95,586,600	54,050,700	56,010,000	60,220,800	55,892,100	104,808,300	105,747,800	27,765,900	29,001,300	29,429,700	29,926,600	29,165,900	28,703,000
State aeronautics fund	245,700	264,500	283,500	260,000	291,400	364,300	284,500	297,500	297,100	323,800	341,000	346,100	340,500
State trunkline fund	13,161,000	12,922,300	11,408,600	8,836,700	15,089,900	13,565,300	14,386,700	13,381,800	13,773,100	14,548,100	15,502,800	17,381,400	19,669,500
State general fund/general purpose	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL OF FUND SOURCES	\$109,332,500	\$67,542,100	\$68,002,200	\$69,498,900	\$71,466,100	\$119,092,200	\$120,743,900	\$41,791,100	\$43,395,400	\$44,635,700	\$46,112,200	\$47,239,800	\$49,049,800

Notes:

<sup>1</sup> In 2003, SB 539 limited the MTF appropriation to the Department of State to \$20.0 million. At the same time, SB 554 shifted certain vehicle registration fees from the MTF to a new Transportation Administration Collection Fund (TACF). The estimated amount of this fund shift was \$51.4 million in FY 2003-04. The total appropriation to the Department of State from the TACF and MTF was \$94.7 million in FY 2003-04.

<sup>2</sup> In FY 2005-06, an additional \$11.0 million (MTF) was appropriated to the Department of State for reissuance of registration license plates.

Note that the above amounts represent appropriated amounts. Reimbursement was based on actual costs.

**Exhibit E**

**Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Comparison of Appropriations to Actual Charges and Audit Findings**

*Per OAG Report 591-0105-06*

<b>FY2003-04</b>	<b>Appropriation</b>	<b>Actual Charges</b>	<b>Audit Exception</b>	<b>Unreimbursed</b>
<b>APPROPRIATIONS</b>				
Department of Civil Service <sup>1</sup>	2,140,000	2,289,580		
Department of Environmental Quality	884,800	857,885		
Department of Management and Budget	1,539,200	1,539,200		1,234,289
MAIN user charges <sup>2</sup>		1,428,100		
Department of State	20,000,000	20,000,000		8,269,299
Department of State Police <sup>3</sup>	6,853,300	5,566,601	370,100	34,274
Department of Treasury <sup>4</sup>	6,797,000	6,778,112	6,364,000	33,888
Legislative Auditor General	616,200	586,100		
Department of Attorney General	2,823,100	2,216,223		23,257
Department of History, Arts, & Libraries	137,500	102,152		
GROSS APPROPRIATION	\$41,791,100	\$41,363,953	\$6,734,100	\$9,595,007

Notes:

<sup>1</sup> As provided in Article XI, Section 5 of the Constitution, Civil Service charges are based on 1% of payroll.

<sup>2</sup> MAIN user charges are appropriated in boilerplate in General Government appropriations acts.

<sup>3</sup> The Auditor General found that with regard to the Michigan State Police Criminal Justice Information Center "cost allocation methodologies had not been updated to reflect current costs or the level of service currently being provided."

<sup>4</sup> The Auditor General found that with regard to the collection of motor fuel taxes, the Michigan Department of Treasury "had not implemented cost allocation methodologies that accurately identified and equitably allocated costs for transportation related activities..."

**Exhibit F**

**Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Comparison of Appropriations to Actual Charges and Audit Findings**

		<i>Per OAG Report 591-0105-06</i>		
		Actual	Audit	
<b>FY2004-05</b>	Appropriation	Charges	Exception	Unreimbursed
<b>APPROPRIATIONS</b>				
Department of Civil Service <sup>1</sup>	2,140,000	2,716,413		
Department of Environmental Quality	958,200	956,749		
Department of Management and Budget	1,335,700	1,335,700		2,137,210
MAIN user charges <sup>2</sup>		1,220,000		
Department of State	20,000,000	20,000,000		370,031
Department of State Police <sup>3</sup>	7,226,700	6,107,296	410,700	22,134
Department of Treasury <sup>4</sup>	7,935,700	7,258,697	6,756,178	34,800
Legislative Auditor General <sup>5</sup>	723,700	936,700		
Department of Attorney General	2,936,400	2,430,877		16,882
Department of History, Arts, & Libraries	139,000	102,152		24,473
GROSS APPROPRIATION	\$43,395,400	\$43,064,584	\$7,166,878	\$2,605,530

Notes:

<sup>1</sup> As provided in Article XI, Section 5 of the Constitution, Civil Service charges are based on 1% of payroll.

<sup>2</sup> MAIN user charges are appropriated in boilerplate in General Government appropriations acts.

<sup>3</sup> The Auditor General found that with regard to the Michigan State Police Criminal Justice Information Center "cost allocation methodologies had not been updated to reflect current costs or the level of service currently being provided."

<sup>4</sup> The Auditor General found that with regard to the collection of motor fuel taxes, the Michigan Department of Treasury "had not implemented cost allocation methodologies that accurately identified and equitably allocated costs for transportation related activities..."

<sup>5</sup> Of the \$936,700 in reported charges, only \$723,700 related to audit costs of state restricted transportation funds. The remaining \$213,000 are for costs of MDOT Single Audit, charged to federal funds.